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January 19, 1993

Ms. Donna R. Searcy  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Re: Ex Parte Presentation MM Docket No. 92-266

Dear Ms. Searcy:

On Friday, January 15, 1993, Bob Hughes and Jerry Lindauer of Prime Cable, accompanied by either Jay Ricks or myself, met with Commissioners Quello and Duggan and members of their staffs, Byron Marchant, Robert Pepper, Stevenson Kaminer, and William Johnson to discuss generally the Commission's Notice of Proposed Rulemaking regarding rate regulation.

We discussed the actual economic performance of Prime's major market systems in Anchorage, Houston, Las Vegas, and Chicago, and the need to recognize that stand-alone major market systems by their nature cannot be subsidized by other systems or enterprises. If prices for basic cable service and equipment are reduced, systems such as Prime's must be able to adjust their rates for tiered service without violating any benchmarks. With regard specifically to Anchorage, we noted that any reliance on benchmarks must be flexible enough to accommodate Alaska's exceptionally high-cost of living.

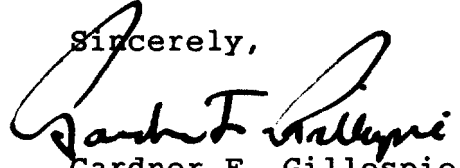
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HOGAN & HARTSON

Ms. Donna R. Searcy  
January 19, 1993  
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An original and copy of this letter is submitted under Section 1.1206(a)(2) of the Rules. Also submitted are copies of materials left with the FCC Commissioners and staff. I was ill on the afternoon of January 15, 1993, and was not able to submit this letter until today.

Sincerely,



Gardner F. Gillespie

GFG/kb

Attachment

cc: Commissioner Quello  
Commissioner Duggan  
Byron Marchant  
Stevenson Kaminer  
Robert M. Pepper  
William Johnson

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### Why Major Markets are Different

- Major markets are already competitive, i.e.

	<u>Take Cable</u>	<u>Do Not Take Cable</u>
Anchorage	51%	49%
Chicago	28%	72%
Houston (Suburbs)	45%	55%
Las Vegas	50%	50%

- Most still produce a deficit net income.
- They are more capital intensive than small markets.
- After interest expense and capital expenditures, there is little or no cash left for debt service.
- Future capital outlays to add channel capacity are enormous!

**Las Vegas, Nevada  
Off-Air Broadcasting Competition**

**Broadcaster/Channel/Affiliation**

KVBC (3)  
NBC

KLAS (8)  
CBS

KVVU (5)  
FOX

KTNV (13)  
ABC

KRLR (21)  
INDEPENDENT

KLVS (10)  
PBS

KFBT (33)  
INDEPENDENT

KBLR (39)  
INDEPENDENT

**LAS VEGAS, NEVADA****INCOME STATEMENT****CONDENSED BALANCE SHEET**  
as of Sept. 30, 1992

	Year-End 1990	Year-End 1991	YTD Nov. 30, 1992
<b>Revenues</b>			
Basic	24,559,468	32,093,711	33,793,243
Basic Bulk/Hotel	1,740,863	2,113,771	2,074,712
Pay TV	11,546,279	12,778,463	12,353,100
PPV	940,892	1,487,823	1,473,225
Special Events	512,804	1,403,799	608,071
Other	8,556,816	9,537,757	9,642,821
<b>Total Revenue</b>	<b>47,857,122</b>	<b>59,415,324</b>	<b>59,945,172</b>
<b>Expenses</b>			
Direct Expenses			
Pay TV	4,709,108	6,020,511	6,137,039
Basic	3,764,111	4,631,867	5,329,826
PPV	478,101	681,897	591,801
Special Events	390,842	851,244	330,956
Franchise Fees	1,318,733	1,750,766	1,593,538
Copyright Fees	554,021	699,275	718,953
Bad Debt	228,417	376,625	276,003
Other	659,524	882,242	212,762
Total Direct Expenses	12,102,857	15,894,427	15,190,878
Operation Expenses	5,998,656	6,567,149	6,259,057
L/O Expenses	1,053,213	1,175,659	1,152,846
G&A Expenses	9,103,924	10,385,221	11,675,640
Marketing & PPV	1,812,175	1,779,728	1,988,403
Capitalized Labor & OH	(1,534,142)	(1,287,413)	(1,204,920)
<b>Total Expenses</b>	<b>28,536,683</b>	<b>34,514,771</b>	<b>35,061,904</b>
<b>Net Operating Profit</b>	<b>19,320,439</b>	<b>24,900,553</b>	<b>24,883,268</b>
<b>Less:</b>			
Depreciation	10,151,846	12,026,940	12,085,183
Amortization	1,688,724	2,037,828	1,889,939
<b>EBIT</b>	<b>7,479,869</b>	<b>10,835,785</b>	<b>10,908,146</b>
<b>Less:</b>			
Interest Expense	14,007,553	12,927,000	7,796,473
<b>NOP after Dep, Amort. &amp; Interest Xp</b>	<b>(6,527,684)</b>	<b>(2,091,215)</b>	<b>3,111,673</b>
<b>Plus:</b>			
Loss Early Retirement Debt	(3,137,868)	(3,723,161)	0
Gain (Loss) on Sale of Assets	19,479	42	(117,561)
Impaired Asset Expense	0	(213,914)	0
Other Expense	0	0	(13,512)
<b>Net Income (Loss)</b>	<b>(9,646,073)</b>	<b>(6,028,248)</b>	<b>2,980,600</b>
<b>Capital Expenditures</b>	<b>19,057,494</b>	<b>9,092,367</b>	<b>13,999,136</b>
<b>Free Cash Flow</b>	<b>(13,744,608)</b>	<b>2,881,186</b>	<b>3,087,659</b>
(Net Operating Profit less Interest Exp. & Capital Exp.)			
<b>Homes Passed</b>	<b>281,274</b>	<b>298,224</b>	<b>316,816</b>
<b>Basic Subscribers</b>	<b>126,272</b>	<b>142,380</b>	<b>159,800</b>
<b>Basic Penetration</b>	<b>44.89%</b>	<b>47.74%</b>	<b>50.44%</b>

**ASSETS**

Current Assets	4,122
Fixed Assets	
Gross Asset Value	140,349
Accum. Depreciation	(67,131)
Net Asset Value	73,218
Intangible Assets	
Gross Asset Value	17,568
Accum. Amortization	(9,226)
Net Asset Value	8,342
Other Assets	10,265
<b>Total Assets</b>	<b>95,947</b>

**LIABILITIES**

Current Liabilities	11,168
Total Debt	149,500
<b>Total Liabilities</b>	<b>160,668</b>

**PARTNERS' CAPITAL**

Partners' Cap. Contribution	345
Accumulated Deficit	(65,066)
<b>Total Partners' Cap.(Def.)</b>	<b>(64,721)</b>

**TOTAL LIABILITIES &  
PARTNERS' CAP. (DEF.)**

95,947

**Houston, Texas**  
**Off-Air Broadcasting Competition**

**Broadcaster/Channel/Affiliation**

KTRK (13)  
ABC

KHOU (11)  
CBS

KPRC (2)  
NBC

KRIV (26)  
FOX

KTXH (20)  
INDEPENDENT

KHTV (39)  
INDEPENDENT

KUHT (8)  
PBS

KXLN (45)  
UNIVISION

KTMD (48)  
TELEMUNDO

KETH (14)  
PBS

**HOUSTON, TEXAS (SUBURBS)****INCOME STATEMENT****CONDENSED BALANCE SHEET**

as of Sept. 30, 1992

	Year-End 1990	Year-End 1991	YTD Nov. 30, 1992
<b>Revenues</b>			
Basic	15,271,980	18,433,951	19,287,147
Basic Bulk/Hotel	331,855	332,074	342,304
Tier Service	89,210	224,914	166,250
Pay TV	6,729,299	6,813,709	6,119,063
PPV	71,966	137,251	179,823
Special Events	87,635	267,047	200,424
Other	2,798,856	3,521,578	4,002,052
<b>Total Revenue</b>	<b>25,380,801</b>	<b>29,730,524</b>	<b>30,297,063</b>
<b>Expenses</b>			
<b>Direct Expenses</b>			
Pay TV	3,022,991	3,383,320	3,229,118
Basic	1,871,072	2,915,491	3,199,860
Tier	na	58,915	na
PPV	38,569	69,541	86,375
Special Events	48,613	166,141	116,249
Franchise Fees	497,356	632,264	612,092
Copyright Fees	44,353	49,649	49,914
Bad Debt	266,291	419,134	397,939
Other	403,937	222,252	22,340
<b>Total Direct Expenses</b>	<b>6,193,182</b>	<b>7,916,707</b>	<b>7,713,887</b>
Operation Expenses	na	3,789,277	3,935,769
G&A Expenses	na	5,161,541	5,084,376
Marketing & PPV	na	940,254	1,024,155
Capitalized Labor & OH	na	(178,484)	(191,165)
<b>Total Expenses</b>	<b>14,762,738</b>	<b>17,629,295</b>	<b>17,567,022</b>
<b>Net Operating Profit</b>	<b>10,618,063</b>	<b>12,101,229</b>	<b>12,730,041</b>
<b>Less:</b>			
Depreciation	5,419,671	6,068,604	5,875,951
Amortization	9,892,343	9,855,139	7,202,231
<b>EBIT</b>	<b>(4,693,951)</b>	<b>(3,822,514)</b>	<b>(348,141)</b>
<b>Less:</b>			
Interest Expense	12,555,000	11,087,000	7,622,113
<b>NOP after Dep, Amort. &amp; Interest Xp</b>	<b>(17,248,951)</b>	<b>(14,909,514)</b>	<b>(7,970,254)</b>
<b>Plus:</b>			
Non-Compete Agreement	(250,000)	(207,000)	(207,394)
Gain (Loss) on Sale of Assets	(41,000)	(8,000)	(346)
<b>Net Income (Loss)</b>	<b>(17,539,951)</b>	<b>(15,124,514)</b>	<b>(8,177,994)</b>
<b>Capital Expenditures</b>	<b>5,637,506</b>	<b>5,412,238</b>	<b>4,585,819</b>
<b>Free Cash Flow</b>	<b>(7,574,443)</b>	<b>(4,398,009)</b>	<b>522,109</b>
(Net Operating Profit less Interest Exp. & Capital Exp.)			
<b>Homes Passed</b>	<b>171,697</b>	<b>176,503</b>	<b>181,807</b>
<b>Basic Subscribers</b>	<b>73,540</b>	<b>79,325</b>	<b>81,947</b>
<b>Basic Penetration</b>	<b>42.83%</b>	<b>44.94%</b>	<b>45.07%</b>

**ASSETS**

Current Assets	4,700
<b>Fixed Assets</b>	
Gross Asset Value	57,927
Accum. Depreciation	(25,322)
Net Asset Value	32,605
<b>Intangible Assets</b>	
Gross Asset Value	73,578
Accum. Amortization	(34,146)
Net Asset Value	39,432
Other Assets	357
<b>Total Assets</b>	<b>77,094</b>

**LIABILITIES**

Current Liabilities	6,471
<b>Total Debt</b>	<b>111,780</b>
<b>Total Liabilities</b>	<b>118,251</b>

**PARTNERS' CAPITAL**

Partners' Cap. Contribution	31,887
Accumulated Deficit	(73,044)
<b>Total Partners' Cap.(Def.)</b>	<b>(41,157)</b>

**TOTAL LIABILITIES & PARTNERS' CAP. (DEF.)** **77,094**

**Chicago, Illinois**  
**Off-Air Broadcasting Competition**

**Broadcaster/Channel/Affiliation**

WLS (7)  
ABC

WMAQ (5)  
NBC

WBBM (2)  
CBS

WGN (9)  
INDEPENDENT

WFLD (32)  
FOX

WPWR (50)  
INDEPENDENT

WTTW (11)  
PBS

WGBO (66)  
IND (JOLIET)

WSNS (44)  
TELEMUNDO

WCIU (26)  
UNIVISION

WCFC (38)  
INDEPENDENT

WYCC (20)  
PBS

WEHS (60)  
HOME SHOPPING



## CHICAGO, ILLINOIS

## INCOME STATEMENT

## CONDENSED BALANCE SHEET

as of Sept. 30, 1992

	6 Months of Operations Year—End 1990	Year—End 1991	YTD Nov. 30, 1992
<b>Revenues</b>			
Basic	11,371,969	25,857,291	24,256,077
Basic Bulk/Hotel	129,519	261,139	248,241
Pay TV	7,289,343	13,774,474	12,970,117
PPV	468,705	1,725,548	1,435,747
Special Events	614,109	1,499,276	1,041,765
Other	2,859,605	7,520,746	9,485,042
<b>Total Revenue</b>	<b>22,733,250</b>	<b>50,638,474</b>	<b>49,436,989</b>
<b>Expenses</b>			
Direct Expenses			
Pay TV	3,109,302	6,880,996	6,791,791
Basic	2,515,767	5,832,188	5,725,345
PPV	259,440	746,435	603,929
Special Events	357,984	831,499	606,088
Copyright Fees	103,699	115,076	110,254
Bad Debt	952,269	1,710,303	878,226
Other	1,340,377	2,980,182	2,773,964
<b>Total Direct Expenses</b>	<b>8,638,838</b>	<b>19,096,679</b>	<b>17,489,597</b>
Operation Expenses	2,712,301	5,142,885	4,310,223
L/O Expenses	272,172	644,987	625,812
G&A Expenses	5,384,552	11,339,768	10,139,885
Marketing & PPV	1,153,978	2,539,791	1,968,347
Advertising Sales	335,302	739,545	718,751
Capitalized Labor & OH	(130,428)	(239,949)	(229,001)
<b>Total Expenses</b>	<b>18,366,715</b>	<b>39,263,706</b>	<b>35,023,614</b>
<b>Net Operating Profit</b>	<b>4,366,535</b>	<b>11,374,768</b>	<b>14,413,375</b>
<b>Less:</b>			
Depreciation	4,862,652	9,220,387	8,891,297
Amortization	10,462,122	11,503,550	9,616,123
<b>EBIT</b>	<b>(10,958,239)</b>	<b>(9,349,169)</b>	<b>(4,094,045)</b>
<b>Less:</b>			
Interest Expense	9,201,000	16,669,000	13,248,796
<b>NOP after Dep, Amort, &amp; Interest XP</b>	<b>(20,159,239)</b>	<b>(26,018,169)</b>	<b>(17,342,841)</b>
<b>Plus:</b>			
Gain (Loss) on Sale of Assets	0	(24,000)	(10,686)
Other Nonoperating Income (Expenses)	0	0	(28,746)
<b>Net Income (Loss)</b>	<b>(20,159,239)</b>	<b>(26,042,169)</b>	<b>(17,382,273)</b>
<b>Capital Expenditures (1)</b>	<b>67,693,659</b>	<b>4,245,006</b>	<b>4,802,328</b>
<b>Free Cash Flow</b>	<b>(72,528,124)</b>	<b>(9,539,238)</b>	<b>(3,637,749)</b>
(Net Operating Profit less Interest Exp. & Capital Exp.)			
<b>Homes Passed</b>	<b>395,326</b>	<b>405,596</b>	<b>412,943</b>
<b>Basic Subscribers</b>	<b>114,746</b>	<b>115,395</b>	<b>117,003</b>
<b>Basic Penetration</b>	<b>29.03%</b>	<b>28.45%</b>	<b>28.33%</b>

**ASSETS**

Current Assets	7,868
Fixed Assets	
Gross Asset Value	73,493
Accum. Depreciation	(21,454)
Net Asset Value	52,039
Intangible Assets	
Gross Asset Value	148,396
Accum. Amortization	(30,567)
Net Asset Value	117,829
Other Assets	1,674
<b>Total Assets</b>	<b>179,410</b>

**LIABILITIES**

Current Liabilities	8,037
Total Debt	150,700
<b>Total Liabilities</b>	<b>158,737</b>

**PARTNERS' CAPITAL**

Partners' Cap. Contribution	82,166
Accumulated Deficit	(61,493)
<b>Total Partners' Cap.(Def.)</b>	<b>20,673</b>

**TOTAL LIABILITIES & PARTNERS' CAP. (DEF.)** 179,410

(1) 1990 Capital Expenditures includes costs to acquire the Chicago plant which totalled approximately \$64.1 million.

**Anchorage, Alaska**  
**Off-Air Broadcasting Competition**

**Broadcaster/Channel/Affiliation**

KTUU (2)  
NBC

KTVA (11)  
CBS

KIMO (13)  
ABC

KTBY (4)  
FOX

KAKM (7)  
PBS

KYES (5)  
INDEPENDENT

KDMD (33)  
INDEPENDENT

KYUK (4)  
PBS

**ANCHORAGE, ALASKA****INCOME STATEMENT****CONDENSED BALANCE SHEET**

as of Sept. 30, 1992

	Year-End 1990	Year-End 1991	YTD Nov. 30. 1992
<b>Revenues</b>			
Basic	11,742,068	14,016,793	14,501,298
Basic Bulk/Hotel	983,266	1,030,430	1,048,728
Tier Service	88,345	93,860	84,990
Pay TV	5,475,843	5,558,571	4,943,781
PPV	834,558	847,458	825,390
Special Events	323,090	553,392	291,264
Other	2,994,890	3,850,113	3,512,587
<b>Total Revenue</b>	<b>22,442,060</b>	<b>25,950,617</b>	<b>25,208,038</b>
<b>Expenses</b>			
<b>Direct Expenses</b>			
Pay TV	2,477,533	2,696,385	2,483,307
Basic	1,390,859	1,669,352	1,745,021
Tier	13,481	17,080	17,005
PPV	270,924	306,105	291,665
Special Events	183,296	304,015	158,017
Copyright Fees	292,610	319,612	321,030
Bad Debt	178,196	157,521	139,923
Other	2,347	1,128	43,864
<b>Total Direct Expenses</b>	<b>4,809,246</b>	<b>5,471,198</b>	<b>5,199,832</b>
Operation Expenses	2,790,557	3,201,193	3,141,647
G&A Expenses	3,534,533	3,916,541	3,888,399
Marketing & PPV	830,718	904,837	853,903
Advertising Sales	155,286	304,797	288,815
Capitalized Labor & OH	(344,977)	(448,300)	(384,446)
<b>Total Expenses</b>	<b>11,775,363</b>	<b>13,350,266</b>	<b>12,988,150</b>
<b>Net Operating Profit</b>	<b>10,666,697</b>	<b>12,600,351</b>	<b>12,219,888</b>
<b>Less:</b>			
Depreciation	5,671,112	6,283,359	6,117,000
Amortization	10,247,832	10,236,984	9,404,694
<b>EBIT</b>	<b>(5,252,247)</b>	<b>(3,919,992)</b>	<b>(3,301,806)</b>
<b>Less:</b>			
Interest Expense	12,242,000	11,142,000	8,018,095
<b>NOP after Dep, Amort, &amp; Interest XP</b>	<b>(17,494,247)</b>	<b>(15,061,992)</b>	<b>(11,319,901)</b>
<b>Plus:</b>			
Gain (Loss) on Sale of Asset	(6,000)	(9,207)	(766)
<b>Net Income (Loss)</b>	<b>(17,500,247)</b>	<b>(15,071,199)</b>	<b>(11,320,667)</b>
<b>Capital Expenditures</b>	<b>5,669,054</b>	<b>4,323,963</b>	<b>2,367,782</b>
<b>Free Cash Flow</b>	<b>(7,244,357)</b>	<b>(2,865,612)</b>	<b>1,834,011</b>
(Net Operating Profit less Interest Exp. & Capital Exp.)			
<b>Homes Passed</b>	<b>101,406</b>	<b>103,804</b>	<b>103,061</b>
<b>Basic Subscribers</b>	<b>45,557</b>	<b>49,155</b>	<b>52,009</b>
<b>Basic Penetration</b>	<b>44.93%</b>	<b>47.35%</b>	<b>50.46%</b>

**ASSETS**

Current Assets	3,498
Fixed Assets	
Gross Asset Value	59,615
Accum. Depreciation	(19,276)
Net Asset Value	40,339
Intangible Assets	
Gross Asset Value	98,448
Accum. Amortization	(33,300)
Net Asset Value	65,148
Other Assets	584
<b>Total Assets</b>	<b>109,569</b>

**LIABILITIES**

Current Liabilities	4,109
Total Debt	111,720
<b>Total Liabilities</b>	<b>115,829</b>

**PARTNERS' CAPITAL**

Partners' Cap. Contribution	45,000
Accumulated Deficit	(51,260)
<b>Total Partners' Cap.(Def.)</b>	<b>(6,260)</b>

**TOTAL LIABILITIES & PARTNERS' CAP. (DEF.)**

109,569

## ALASKA SUBSCRIBER RATES

There are many reasons which together can explain the need for higher subscriber rates in Alaska than in the lower 48 states. A quick definitive analysis is not possible because we have not had a need to maintain records in the form one needs to deal with regulatory issues. However, some anecdotal information will provide some insight:

### 1. **Plant Construction Costs**

1993 budget data shows underground plant construction costs to be \$43,000 per mile in Alaska compared to \$20,000 in Houston and \$12,000 in Hickory. The 1989 appraisal (replacement cost) valued the Alaska plant at \$48,033 per mile. Normal direct/bury flooded cable used in the lower 48 costs \$238.50 per 1,000 ft. The armored cable used frequently in Anchorage because of the "heaving" of the ground, direct freezes and thaws costs \$318.50 to \$408.50 per 1,000 ft. The tundra cable developed for our use in Bethel (small quantity) costs \$471 per 1,000 ft.

The short season during which construction is possible (May to September, at best) causes competition for resources, which raises local contractor costs to the point we use a construction contractor from Washington State.

### 2. **Wages**

Comparison with our Houston system shows significant wage differentials for comparable positions. Examples include Customer Service Representative, 23%; Customer Service Supervisor, 28%; Maintenance Technician, 37%; Technical Supervisor, 39%.

### 3. **Vehicles**

Generally we pay a \$600 premium for autos and vans purchased through our national vendor for Alaska.

### 4. **Freight**

Our major vendors offer free freight on orders in excess of \$500, except to Alaska. For Alaska shipments, they pay freight to Seattle; we pay freight from Seattle to Anchorage. On a typical shipment of cable or converters, we have \$500 to \$1,000 more shipping cost.

### 5. **Gasoline**

Gasoline is more expensive in Alaska. October 1992 invoices show a cost of \$1.31 per gallon in Alaska vs. \$1.04 and \$1.19 in Hickory and Las Vegas, respectively.

### 6. **Operations**

Due to the weather conditions, all winter installs require a second visit to bury the drop when the ground has thawed. The seasonal nature of television viewing yields 30% higher churn (disconnects) among subscribers than we experience in most markets.

**Comparison of Prime Cable of Anchorage's  
Cable Rates with the Other Two Large  
Metropolitan Areas in the State of Alaska\***

	Anchorage	Fairbanks	Juneau
Monthly Rate for all Channels	\$31.95	\$39.90	\$40.90
Number of Channels	45	25	29
Cost per Channel	.71	1.60	1.41
Number of Premiums	8	4	4
Monthly Cost			
HBO**	9.95	10.00	8.95
Showtime**	8.95	12.00	9.95
Cinemax	8.00	8.95	9.95
Disney	8.00	10.00	9.95

Example: Cost of typical subscription and HBO

	\$41.90	\$49.90	\$49.85
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\*What would appear a reasonable rate in Alaska could be interpreted unreasonable when compared to the lower 48 states. Zone of reasonable rate regulation should consider the differences in operating in the State of Alaska vs. the lower 48 states.

\*\*HBO and Showtime in Anchorage offer two channels with each subscription rather than one channel as compared to these other cable systems.